

China's Wto Accession in American Pacific Strategy

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Good afternoon, everyone, and thank you all for coming.

Let me express my special gratitude to the Asia Society and Carl Spielvogel for this Leadership Award. I am grateful not only for myself but because, in providing me with this recognition, America's premier association for the study of Asian politics, culture and economic affairs also recognizes the hard work of our China negotiating team over many years. And I also very much appreciate the chance to offer you some thoughts and exchange ideas on one of the most important American trade and foreign policy goals – China's accession to the World Trade Organization and permanent Normal Trade Relations status.

ONE-WAY CONCESSIONS

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but we must also think about the wider implications.

China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st strategy. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4th century B.C., such a relationship poses profound questions for future peace and stability

across a vast section of the earth:

“Eagles do not flock together like birds of lesser wing;
thus it has been since ancient times.
How is the round to fit with the square?
How can different ways of life be reconciled?”

Such questions dominate our China debate today. And many thus ask why we would proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- I believe necessary -- to judge the WTO accession in light of these questions as well. And we can begin by tracing back to its origin the institution China now seeks to join.

AMERICA AND THE TRADING SYSTEM

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which had deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades:

- Collective security, reflected by the United Nations, NATO and our alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

The work they began in 1948 has continued for over fifty years; and their faith in freedom, open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. In these years, the world economy grew six-fold. Per capita income nearly tripled. Hundreds of millions of families escaped from poverty. America, as the world's largest exporter and importer, benefits

perhaps most of all. And together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, the work of trade policy has helped to make the world substantially more prosperous, stable and peaceful than before.

CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road.

With the Communist revolution in 1949, it shut the doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. Reform has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and enabling private business to revive in villages and cities. A number of earlier policies, notably bans on foreign investment and private export trade, have been substantially relaxed although not abandoned entirely.

American trade policy over 30 years has worked together with this advancing domestic reform, to create trade opportunities for Americans as China's market began to open and support the efforts of reformers within China. This has been bipartisan and consistent, from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; the renewal of NTR ever since; our support for China's APEC membership; and most recently a series of more detailed agreements on market access, intellectual property, textiles and agriculture.

RESULTS TO DATE

Each of these steps has been taken with specific and concrete American trade interests in mind. But each has also helped to create new opportunities for Americans, support Chinese

domestic economic reform, promote the basic concepts of the rule of law, and integrate China into the Pacific regional economy.

The results have been profoundly positive. In an economic sense, of course, reform and foreign investment have helped 200 million Chinese men and women escape from poverty; for our part, we always benefit from reduction of poverty overseas, as demonstrated in the Chinese case by America's \$10 billion in export growth since our commercial agreement. But China's economic opening has helped to foster advances that go beyond simple material gain.

Within China, much of the political system remains repressive and authoritarian. This is detailed in comprehensive form by the State Department's Human Rights Report; it is why we once again are sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record, and why we have sanctioned China as a "country of particular concern" under the International Religious Freedom Act.

But it is also fair to note that as reform has proceeded, respect for a number of basic rights and liberties cited in the Universal Declaration has grown. This is true with respect to property rights, with farmers able to farm their own land, entrepreneurs able to start businesses, and families able to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to access foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners as well as people from Hong Kong and Taiwan.

And China has become a more integrated, responsible member of the Pacific community. With reform and opening to trade, Japan, South Korea and the ASEAN states became China's customers and investors; concurrently, China moved away from the revolutionary foreign policy of the 1950s and 1960s. While we at times differ with China on issues as profound as stability in the Taiwan Strait and weapons proliferation, we also recognize that China plays a positive, stabilizing and important part on issues as various as the maintenance of peace in Korea, the Asian financial crisis and its role on the U.N. Security Council.

CURRENT TRADE BARRIERS AND ECONOMIC CHALLENGES

But reform remains incomplete.

Some policy legacies of the 1950s remain in force: bans on foreign participation in the information industries; control over economic contact with foreigners; and restrictions on the ability of both foreign and Chinese businesses to distribute their products and trade with one another. Others are only partly reformed – foreign companies may now invest in China, but lose the right to import the parts they choose and market their products as they see fit. Beyond this, China's trade barriers remain very high, and have been joined by newer industrial policies requiring that investors transfer technology, purchase parts only from Chinese sources, and so forth, which work together to prevent exports and force investment, employment and technology

into China.

Thus our \$10 billion in export growth since 1980, while substantial, is far less than our export growth to Europe, China, South Korea, the ASEAN nations, Canada, Mexico or Taiwan over the same period. And China's external and internal trade barriers block not only American exports but – as China's senior leaders realize – have led to corruption and economic inefficiencies which block China's own prospects for sustainable growth, job creation and technological progress.

THE WTO ACCESSION

The WTO accession will help both countries address these problems, through a comprehensive set of commitments covering the range of industrial goods, services, farm products and unfair trade practices; and addressing all major barriers to American exports. Under the bilateral agreement we reached last November:

China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005, with tariffs for information technology products falling to zero; auto tariffs dropping from 80-100% to 25%; and on across the spectrum of industries.

China will also eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose, free of requirements to go through government middlemen.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products such as wheat, corn, cotton, rice, soybean oil and others, through tariff-rate quotas that offer dramatic opportunities to producers of these products and permit for the first time private trade in these products. It will also end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base border inspections on science.

In services, China's markets will open for distribution services, telecommunications, financial services, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. In fields such as distribution, telecommunication and several others, this represents the first opening to direct foreign participation since the 1950s.

And the agreement strengthens protection of American workers and businesses against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use special

non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

All of these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, through periodic multilateral review of China's adherence as well as multilateral pressure from all 135 members of the WTO, through increased monitoring by the U.S., with the President's request last month for a tripling of funds for China compliance and enforcement in his budget last month, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

Results under the agreement will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

And the work ahead for China -- bilateral market access agreements with several other WTO members, most notably the European Union, and a multilateral negotiation on additional rules -- should strengthen the already very strong accession agreement we negotiated.

PERMANENT NORMAL TRADE RELATIONS

By contrast to this historic set of commitments, we do very little. We make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

Permanent NTR, in terms of our policy toward China, is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

WTO ACCESSION AND CHINESE REFORM

And the costs of U.S. retreat at this most critical moment would go well beyond our

export and trade interests.

Just as our role in the foundation of the GATT was closely linked with the Universal Declaration on Human Rights and our postwar alliances -- and just as China's economic isolation in the early years of the Cold War contributed to domestic repression and international upheaval - - China's WTO accession today will help us as we consider broader questions of human rights and security. As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They reform policies dating to the earliest years of the communist era. They will give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather the economic opening to and engagement with the world and ultimately development of the rule of law inherent in the initiative President Truman began in 1948.

The WTO accession, therefore, has potential beyond economics and trade. It can serve as a foundation for the rule of law within China; and as a precedent for willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights -- Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison -- see the WTO accession as China's most important step toward reform in twenty years. It is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

WTO ACCESSION AND AMERICAN STRATEGY

And it is why WTO accession forms part of the answer to the profound question posed by Qu Yuan 2300 years ago, with respect to the ways in which our very different countries can find the accommodations necessary to peace and stability.

We should never imagine that a trade agreement will cure all our disagreements. And

when we disagree with China we must act with candor and firm assertion of our interests and values – as we did when China fired missiles into the Taiwan Strait four years ago; as we are doing at the UN Human Rights Commission a few blocks away. But this is only part of our approach; as Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20th century:

“We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights.”

In this spirit, we recognize how important a stable and peaceful relationship with China is - for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas in which we share interests and benefits. We saw this responsibility clearly in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the environmental problems of the Asia-Pacific; and, for over a quarter century, in trade.

Each step since the lifting of the trade embargo has rested upon concrete American interests; helped to promote reform and the rule of law within China; and integrate China in the Pacific economy. Thus, each step has strengthened China's stake in prosperity and stability throughout Asia. Together with our network of Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world.

And China's WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process for many years.

CONCLUSION

And so, if we have the confidence and the wisdom to make the right choice in the debate ahead, we will open an extraordinary set of possibilities.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to communities throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law; offering new opportunities and hope for a better life to hundreds of millions of Chinese; and making China a country freer, more open to the world, and more responsive to the rule of law than it is today.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us. These are the stakes. And that is why I ask for your support as we pursue permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.